



Economic Indicators

Prepared by the Department of Finance • April 2013

*The purpose of this report is to keep policy makers apprised of changes in
the national and local economies that
the Montgomery County Department of Finance
believes may impact current and/or future revenues and expenditures.*

*This report is also available through the Internet
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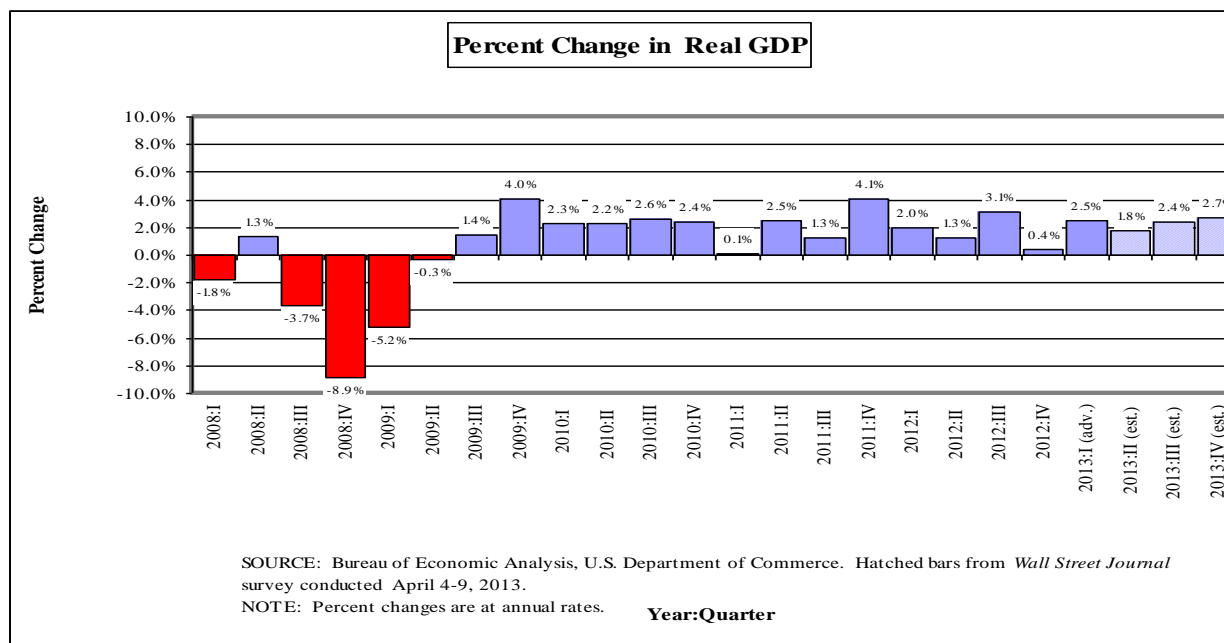
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NATIONAL ECONOMY

According to the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, gross domestic product (GDP) increased at 2.5 percent seasonally adjusted annual rate during the first quarter of 2013. That increase follows fourteen consecutive quarters of growth since the end of the recession in June 2009. Based on the April *WSJ* survey (April 4 – 9), fifty economists surveyed expect economic growth to increase 1.8 percent, on average, during the second quarter of 2013 (April to June) and an increase of 2.5 for calendar year 2013 and 2.9 percent for calendar year 2014. The survey of economists expect the jobless rate to be at 6.8 percent at the end of 2014 and that inflation pressures will remain subdued into 2014.



Following its meeting on March 19 and 20, the Federal Open Market Committee (Committee - FOMC) of the Federal Reserve stated in its press release that “with appropriate policy accommodation, economic growth will proceed at a moderate pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate to foster maximum employment and price stability.” The March unemployment rate declined from 7.7 percent in February to 7.6 percent in March. The FOMC also decided to continue purchasing additional agency mortgage-back securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. The Committee decided to keep the target rate for the federal funds rate at 0.00 to 0.25 percent and will maintain this low rate at least as long as the unemployment rate remains above 6.5 percent and inflation no more than 0.5 percentage point above the Committee’s 2.0 percent longer-term goal over the next two years.

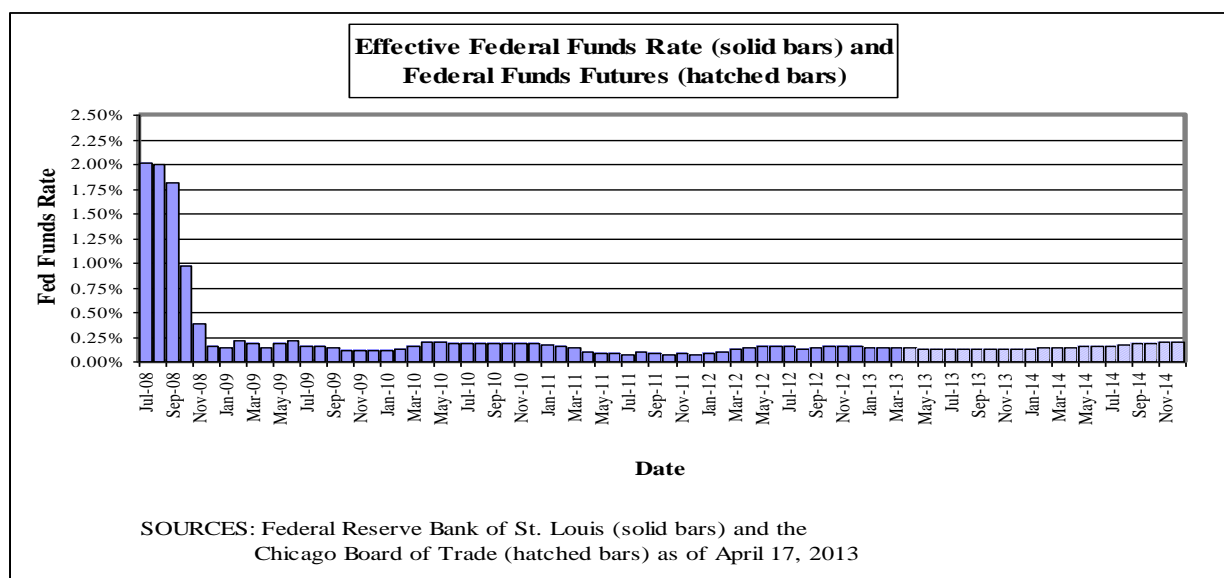
Data released by BEA for the first quarter showed that the increase in real GDP was attributed to an increase in personal consumption expenditures (↑3.2% - up from the 1.8% during the fourth quarter of last year and gross private domestic investment (↑12.3% - up dramatically from the 1.3% during the fourth quarter) led by residential fixed investment (↑12.6%) and equipment and software (↑3.0%), and exports (↑2.9%). The modest acceleration in real GDP in

the first quarter from the fourth quarter reflected decreases in federal government spending notably in national defense spending ($\downarrow 11.5\%$) and state and local government ($\downarrow 1.2\%$).

Real final sales of domestic product, which measures aggregate demand and is GDP less the change in real private inventories, increased 2.7 percent during the fourth quarter compared to 2.9 percent during the fourth quarter. Real final sales are a good measure of future production. If the growth rate in real final sales exceeds the growth rate for GDP over an extended period of time, it indicates strong demand and an expansion of the national economy. FOMC anticipates that the growth rate of real GDP would increase in 2013 and again in 2014.

At its March meeting, members of the FOMC submitted their assessments of real output growth, the unemployment rate, inflation, and the target federal funds rate for each year from 2013 through 2015 and over the longer run. Each assessment was based on information available at the time of the March meeting and “under appropriate policy.” The assessments indicated that economic activity would gradually increase over the 2013-15 period and inflation would remain subdued. The “central tendency” of participants’ projections for the change in real GDP was 2.3-2.8 percent for 2013, 2.9-3.4 percent for 2014, and 2.9-3.7 percent for 2015. The forecasts for the unemployment rate were 7.3-7.5 percent at the end of 2013, and 6.7-7.0 percent at the end of 2014. The projection for overall inflation as measured by the growth in the “core” personal consumption expenditure (PCE) price index, the overall PCE index excluding food and energy, was 1.5-1.6 percent in 2013, 1.7-2.0 percent in 2014, and 1.8-2.1 percent in 2015.

The participants’ assessments of appropriate monetary policy, as measured by the target federal funds rate, judged that the low levels of the rate would remain appropriate for a few more years. Thirteen of the nineteen members that comprise the current Committee membership thought that the first increase in the target federal funds rate would not be warranted until 2015 and one member believed that that 2016 was the appropriate year to increase the rate and five members judged an earlier increase either in 2013 or 2014. Therefore, a majority of the members of the Committee believed that economic conditions would warrant maintaining the current low level of the federal funds rate until 2015.



According to economic analysts, business spending usually increases before consumer spending as the economy continues to expand. As stated earlier, spending on equipment and software increased at a seasonally adjusted annual rate of 3.0 percent during the first quarter. That increase was the fourteenth out of fifteen quarters since the end of the recession. Consumer spending as measured by personal consumption expenditures (PCE) increased 3.2 percent at a seasonally adjusted annual rate during the first quarter and was the fifteenth consecutive quarterly non-decrease since the end of the recession. With business spending outpacing consumer spending over the past fourteen quarters, the economy is expected to expand over the near term.

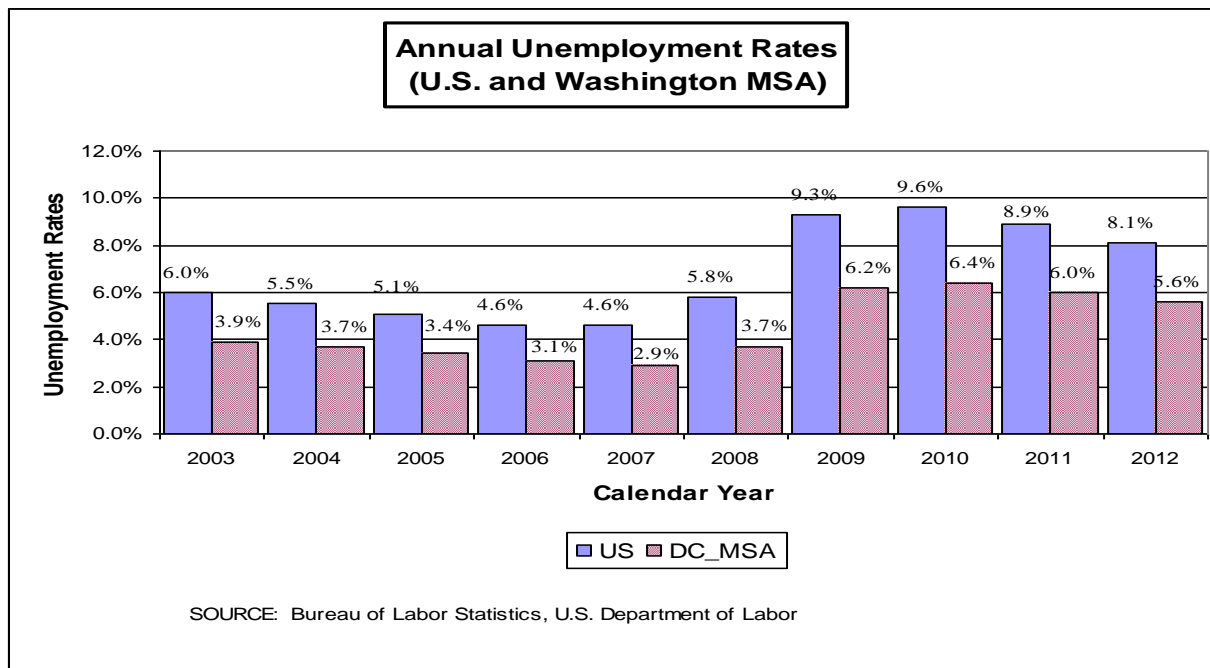
Sales of existing homes decreased 0.6 percent from February to March but increased 10.3 percent over March 2012. Median home prices for existing homes increased in March over February (↑6.4%) and 11.8 percent over March 2012. Average prices increased 5.6 percent in March from the previous month and 9.9 percent over March of last year. The inventory-to-sales ratio for new homes for sale was 4.4 in March and has been below the five-month level for fourteen consecutive months. According to *Barron's* (April 1, 2013), the double-digit increase in median prices experienced the past three months along with the February increase of 9.6 percent (year-over-year) in the S&P/Case Shiller® 20-City Composite Home Price means “many consumers’ most prized asset is gaining value.” That gain in value could translate into more economic growth “fueled by spending on everything from appliances to furnishings.” The improved strength in residential prices is attributed to an improved job market, low mortgage rates, and the decline in foreclosures.

According to the Bureau of Labor Statistics, total nonfarm employment increased by a meager 88,000 in March and grew by an average of 168,000 per month during the first quarter of this year – well below average of 262,000 during the first quarter of 2012. Total private employment rose by 95,000 in March. During the first quarter of this year, total private employment jobs averaged 171,000 per month, compared to an average monthly gain of 265,000 during the same period in 2012. Government employment was little changed in March.

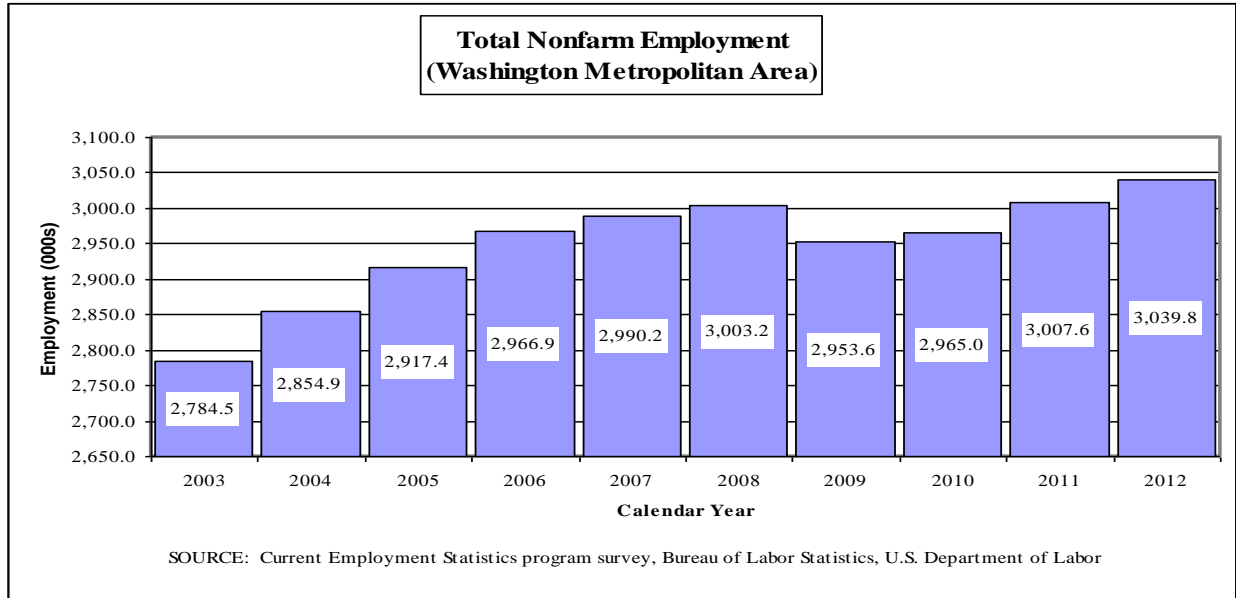
After three consecutive quarters of weak returns last year, the stock market experienced double-digit growth during the first quarter of this year. Three of the four market indicators – Dow-Jones Industrial Average (↑11.25%), Standard & Poor’s 500 (↑10.03%), and the Russell 2000 (↑12.03%) indices – all experienced double-digit growth and NASDAQ increased 8.2 percent during the first quarter. While the stock market experienced its best performance since the first quarter of last year, the issue is whether the pattern of a strong first-quarter growth would be followed by a weak performance through the remainder of the calendar that occurred during the past two years. While the Dow Jones and S&P 500 indices reached all time highs in April, the returns through the first three weeks of the month ending April 19 were lower compared to monthly returns the previous three months. One indicator of a slowdown in the stock market the past three weeks has been the fact that investors have “rotated” or shifted out of stocks into U.S. Treasuries.

REGIONAL ECONOMY

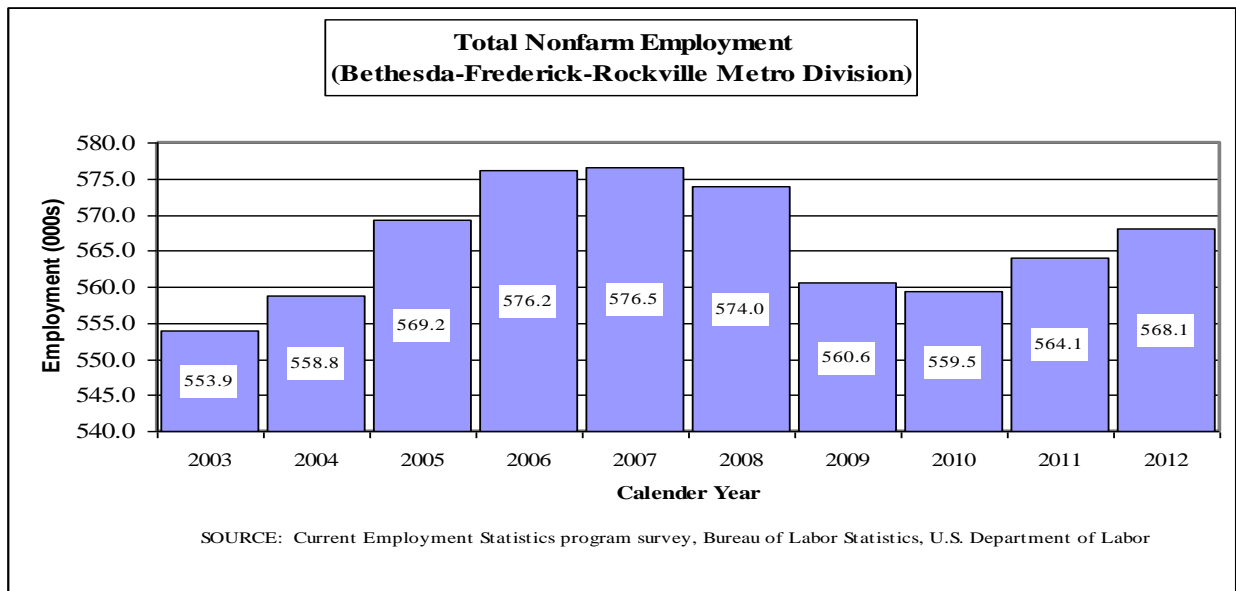
According to the employment data from the Bureau of Labor Statistics, U.S. Department of Labor, the Washington area economy is experiencing the same pattern that is being reflected in national trends, although not as vulnerable to the effects of the national recession. Compared to the national unemployment rate at 8.1 percent in 2012, the region's unemployment rate was 5.6 percent. Over the past ten years, the changes in the region's unemployment rate have followed the same pattern as the national average albeit with a greater percentage point spread beginning calendar year 2009.



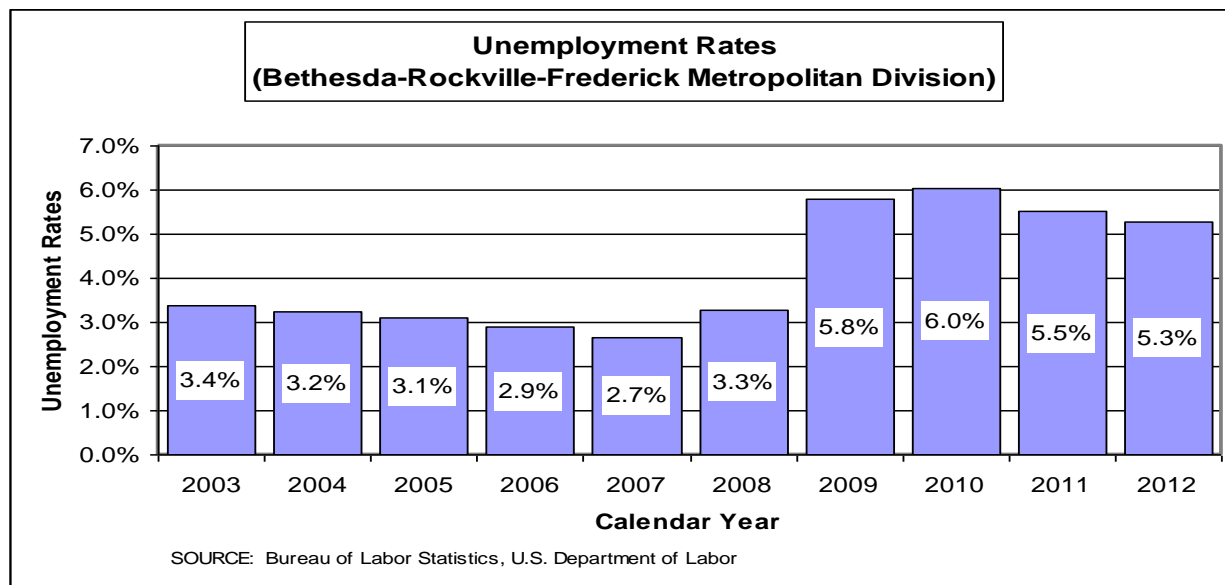
Total payroll employment, that declined in earnest on a year-over-year basis starting in December 2008 and continued through March of 2010, has improved dramatically over the past three years ending in March of this year. Total payroll employment stood at nearly 3,040 thousand in 2012— up slightly from the 3,008 thousand in 2011 – an increase of 32,200 jobs and 70,500 between March 2010 and March 2013.



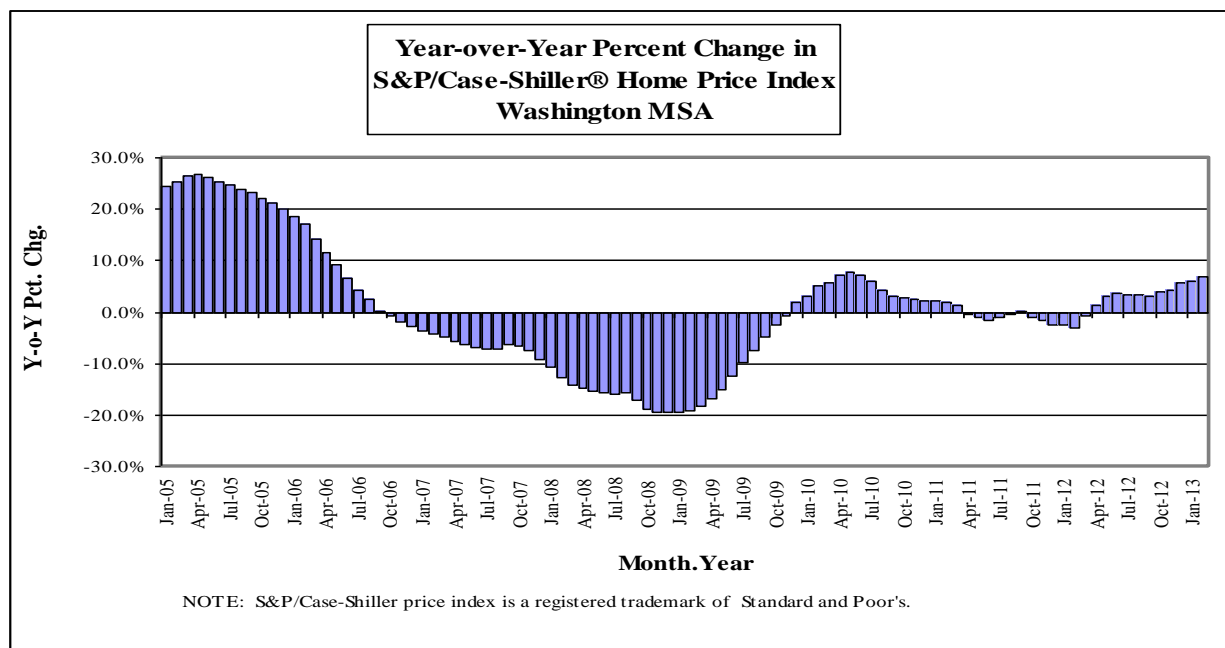
Payroll employment for the Bethesda-Rockville-Frederick (BRF) metropolitan division also experienced growth in 2012. Total payroll employment stood at 568,100 – an increase of 4,000 over 2011. However, the modest increase in 2012 resulted in total payroll employment well below the peak of 576,500 in 2007.



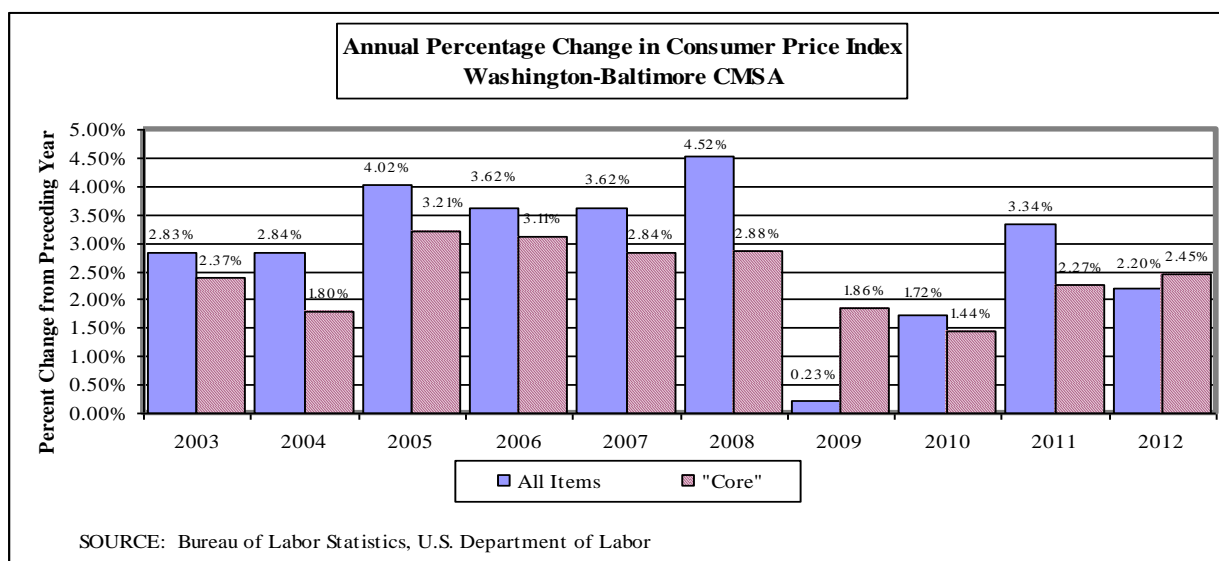
Because payroll employment experienced growth the past year, the unemployment rate for the BRF metropolitan division continued to decline from its peak of 6.0 percent in 2010 to 5.3 percent in 2012. The unemployment rate for the division remains one of the lowest among the 34 national metropolitan divisions. In March, the division's unemployment rate stood at 5.2 percent which was the lowest among the 34 divisions.



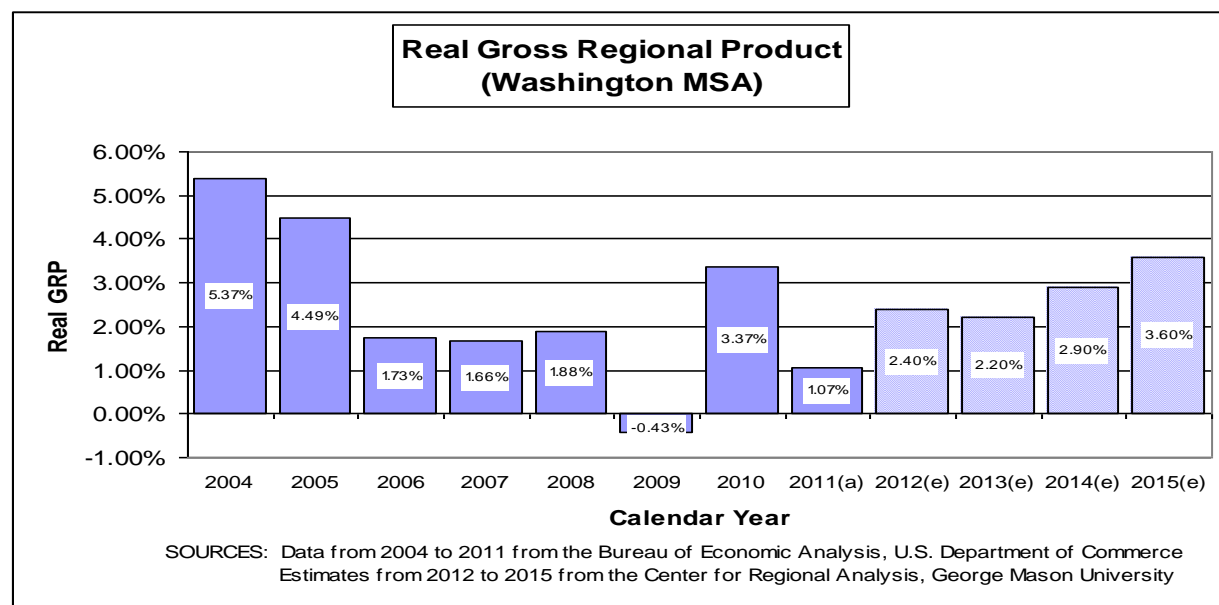
The resale housing market across the region experienced a growth in prices, on a year-over-year basis, between January 2012 and January of this year. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in February increased 6.9 percent over the twelve-month period.



As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased 1.4 percent on a year-over-year basis in March, i.e., March 2013 over March 2012. Consumer prices excluding food and energy purchases were up 1.7 percent in the region (on a year-over-year basis), which was lower compared to the national rate (↑1.9%) over the same March 2012-to-March 2013 period.



According to the BEA, the gross domestic product by metropolitan area, or gross regional product (GRP), increased 1.07 percent in 2011 for Washington metropolitan area. Among the ten largest metropolitan areas ranked by real GRP, Washington was the fourth largest with a GRP of \$380.714 billion. The Center for Regional Analysis, George Mason University, estimates that the gross regional product for the Washington metropolitan area will increase from 1.07 percent in 2011 to 3.60 percent by 2015. CRA estimates that total payroll employment in the Washington metropolitan area will increase by 42,000 in 2013, 45,000 in 2014, and 43,000 in 2015 and well above the annual average of 36,000 between 1990 and 2010.

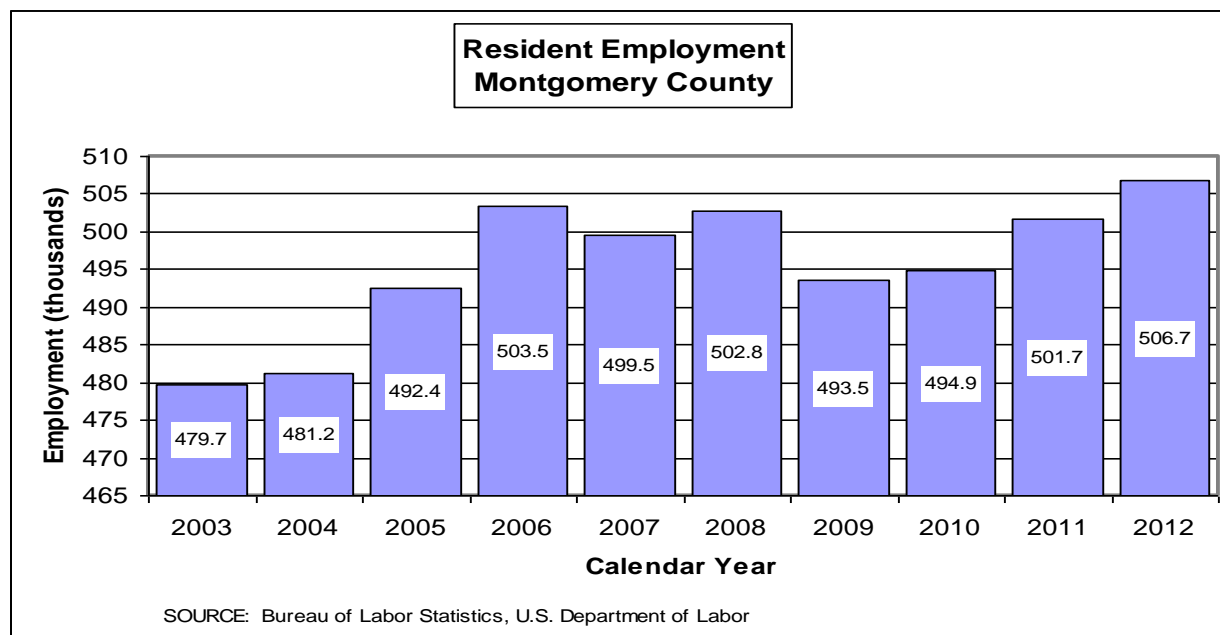


MONTGOMERY COUNTY ECONOMIC INDICATORS

Montgomery County's economic performance improved during calendar year 2012 and during the early part of 2013. The major reasons for the improvement were a decrease in the unemployment rate, an increase in employment – both resident (labor force series) and payroll employment (establishment series), and an increase in the median sales price for existing homes. Residential construction also picked up in 2012.

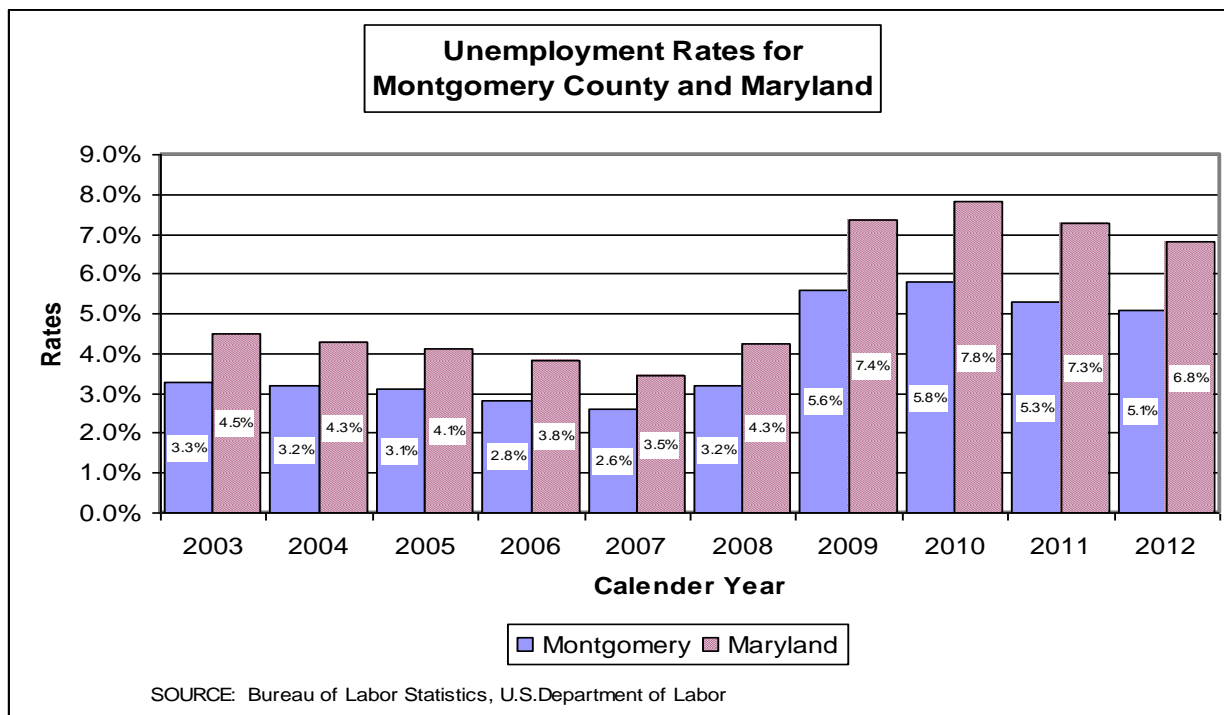
Employment Situation

Based on data from the Bureau of Labor Statistics, U.S. Department of Labor, and the Maryland Department of Labor, Licensing and Regulation (DLLR), resident employment (labor force series and not seasonally adjusted) in Montgomery County increased by 5,000 (↑1.0%) during 2012. Resident employment in the County as derived from a survey of households rather than establishments increased from a revised 501,700 in 2011 to 506,700 in 2012. The County's unemployment rate declined from 5.3 percent in 2011 to 5.1 percent in 2012. Throughout the calendar year, the County's unemployment rate remained one of the lowest in the State and averaged 1.7 percentage points below the State's average in 2012.



However, the County's total payroll employment, as derived by the Department of Finance incorporating the establishment series from the Bureau of Labor Statistics (BLS), U.S. Department of Labor, for the Bethesda-Rockville-Frederick metropolitan division increased by 2,300 (↑0.5%) during 2012. Total payroll employment stood at an estimated monthly average of 471,400 jobs during the calendar year 2012 compared to 469,100 in 2011. The discrepancy between resident employment (5,000) and payroll employment (2,300) is attributed to the sources of the data. Resident employment is derived from the survey of households while

payroll employment is derived from DLLR's unemployment insurance program and from the BLS survey of establishments.



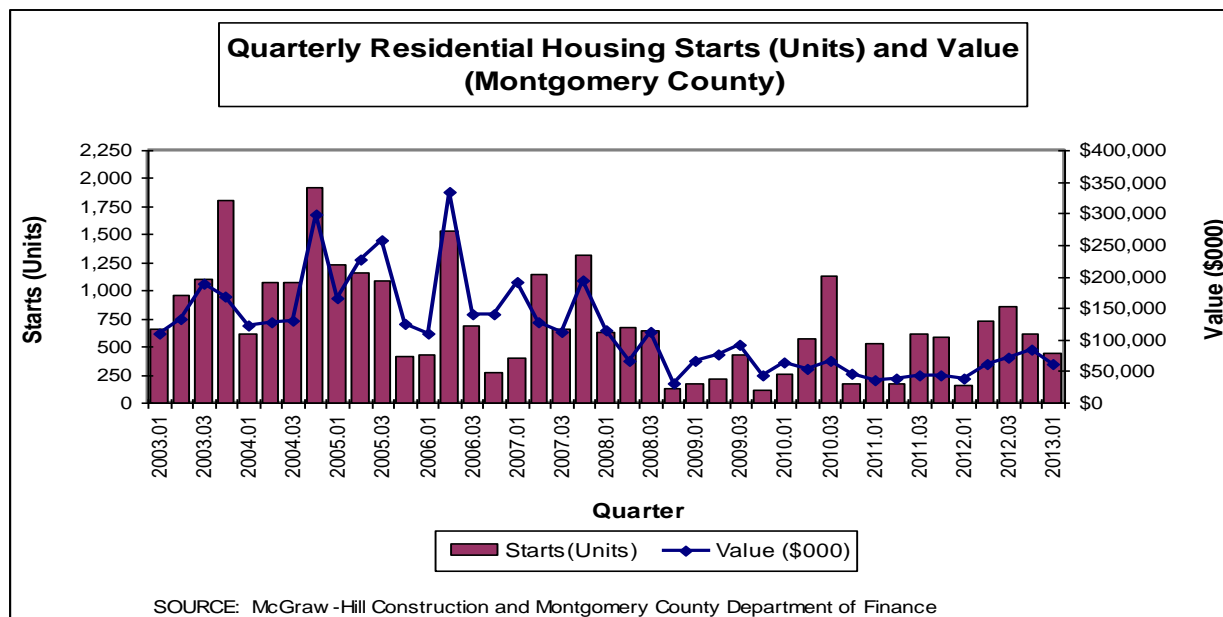
While the unemployment rate has remained at or above the 5.0 percent level for the past four calendar years, it has declined steadily since its peak in 2010. The decline has been attributed to an increase in resident employment and a decline in the number of unemployed during the past two calendar years. Employment grew by 11,840 over the two-year period while the number of unemployed declined by nearly 3,100 over the same period.

Construction Activity

Construction experienced strong performance during calendar year 2012. The total number of building permits (residential units and commercial permits) increased 45.9 percent and the number of total new construction starts (residential units and commercial projects) increased 6.5 percent compared to calendar year 2011. Strong residential construction starts attributed to multifamily and single-family units added a total value \$529.3 million – an increase of 21.9 percent over 2011. Total construction of residential units increased 4.6 percent from 2011 to 2012. The number of new single-family units increased 39.2 percent from 650 single-family units in 2011 to 905 units in 2012. Construction of single-family units in 2012 was the second highest number since 2007. At the same time that the number of total residential construction starts increased during 2012, the number of residential permitted units increased 55.9 percent in 2012 compared to 2011 suggesting continued improvement in residential construction.

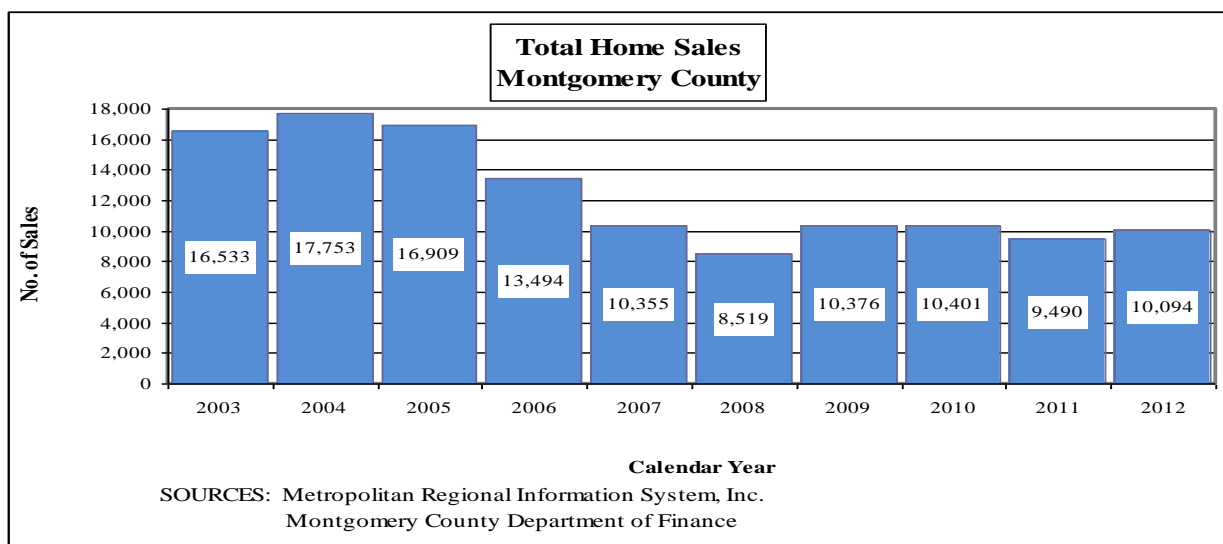
Quarterly construction starts for residential units attribute significant volatility to two major factors: seasonality and housing demand. Prior to 2009, the volatility in the construction of housing units can be attributed to strong demand for new single-family and multi-family units.

Between 2009 and 2010, the demand for new single-family and multi-family units declined due to the crash in the housing market. Since that time, demand for multi-family units, which include rental units, increased and a modest construction boom in new multi-family units began. The increase in demand represents a shift from owner-occupied housing units to rental units particularly among the younger working-aged population.



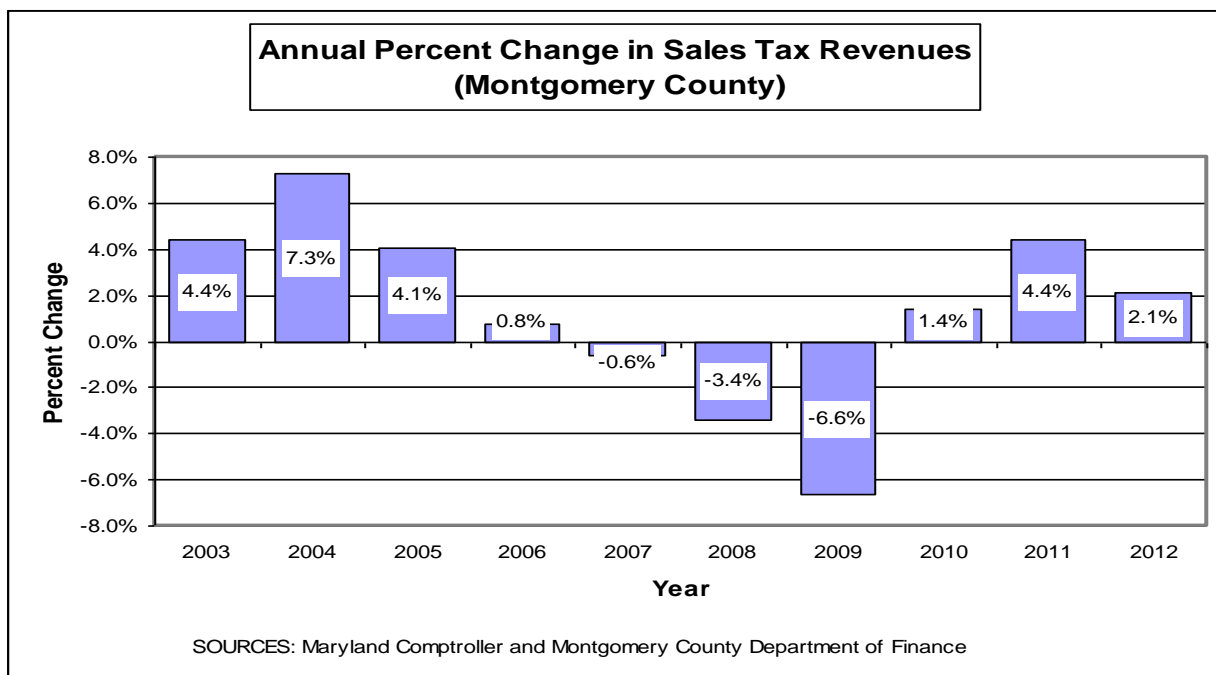
Residential Housing Market

During 2012, home sales increased 6.4 percent following a decline of 8.8 percent in 2011 and an increase of 0.2 percent in 2010. Median sales prices for existing homes increased 4.9 percent and followed an increase of 2.9 percent in 2010 and no increase in 2011.



Retail Sales

Using sales tax receipts as a measure of retail sales in the County, the growth in sales of durable and nondurable goods, excluding miscellaneous and assessment collections, increased 2.1 percent in 2012. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 2.8 percent during this period while sales of durable goods were up a meager 0.4 percent. The increase in nondurable good purchases was largely attributed to sales of merchandise items ($\uparrow 4.3\%$) and sales of food and beverage products ($\uparrow 3.7\%$). The increase in durable goods was attributed to sales of hardware, machinery, and equipment ($\uparrow 9.0\%$).



CONCLUSION

While the County's economy improved during 2012, the results are somewhat mixed. Although the average monthly unemployment rate declined in 2012 to 5.1 percent, it remained elevated. Employment measured either by the survey of establishments or households increased in 2012 but not at rates to drive the unemployment rate below 5 percent. Residential construction improved with the construction of single-family homes up 39.2 percent. Sales of existing homes increased to 10,094 but below sales in 2009 and 2010 and well below sales between 2003 and 2006. The overall inflation rate in the region remained subdued but the "core" rate increased slightly. Retail sales, particularly for purchases of durable goods, remained weak.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2011
				2012	2011	
Leading Indicators						
National	Mar. '13	-0.1%		n.a.		n.a.
Washington MSA	Nov. '12	2.8%		2.0%		2.4%
Coincident Indicators						
National	Mar. '13	-0.1%		n.a.		n.a.
Washington MSA	Nov. '12	1.1%		2.2%		3.9%
Consumer Confidence Index						
National	Mar. '13	-12.2%		2.9%		2.2%
South Atlantic Region	Mar. '13	-28.5%		-1.3%		2.4%
Consumer Sentiment (University of Michigan)	Apr. '13	-8.0%		13.6%		-6.2%
Consumer Price Index						
All Items (nsa)						
National	Mar. '13	1.5%		2.1%		3.2%
Washington - Baltimore CMSA	Mar. '13	1.4%		2.2%		3.3%
Core CPI (nsa)						
National	Mar. '13	1.9%		2.1%		1.7%
Washington - Baltimore CMSA	Mar. '13	1.7%		2.5%		2.3%
Retail Trade						
National (sales - nsa)	Feb. '13	1.2%		5.2%		7.9%
Maryland (sales tax)(1)	Feb. '13	0.1%		2.8%		3.8%
Montgomery County (sales tax)(1)	Feb. '13	0.5%		1.2%		4.4%
Employment						
Maryland (labor force data - nsa)	Mar. '13	2,918,654	2,895,160	2,909,571	2,868,191	2,868,191
- Percent Change		0.8%		1.4%		1.3%
Bethesda-Federick-Gaithersburg (labor force data)	Mar. '13	632,291	625,447	628,245	622,005	622,005
- Percent Change		1.1%		1.0%		1.3%
Montgomery County (labor force data)	Mar. '13	509,994	504,473	506,730	501,697	501,697
- Percent Change		1.1%		1.0%		1.4%
Montgomery County (QCEW)	Sept. '13	454,195	451,811	449,168	445,509	447,784
- Percent Change		0.5%		0.8%		1.4%
Unemployment						
Maryland (nsa)	Mar. '13	6.6%	6.8%	6.8%	7.3%	7.3%
Bethesda-Federick-Gaithersburg (nsa)	Mar. '13	5.1%	5.2%	5.3%	5.5%	5.5%
Montgomery County (nsa)	Mar. '13	4.9%	5.1%	5.1%	5.3%	5.3%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousands)	Mar. '13	\$69,812	\$34,076	\$1,257,256	\$1,405,293	\$1,396,958
- Percent Change		104.9%		-10.5%		-21.8%
Residential (\$ thousands)	Mar. '13	\$43,062	\$20,519	\$535,940	\$492,781	\$492,781
- Percent Change		109.9%		8.8%		29.4%
Non-Residential (\$ thousands)	Mar. '13	\$26,750	\$13,557	\$721,316	\$912,512	\$904,177
- Percent Change		97.3%		-21.0%		-32.2%
Building Permits (Residential)						
National	Feb. '13	65,979	51,927	815,512	610,707	610,707
- Percent Change		27.1%		33.5%		2.1%
Maryland	Feb. '13	1,020	1,051	14,646	12,198	12,198
- Percent Change		-2.9%		20.1%		0.1%
Montgomery County (units)	Feb. '13	161	314	3,946	2,531	2,531
- Percent Change		-48.7%		55.9%		33.6%
Building Permits (Non-Residential)						
Montgomery County	Mar. '13	175	133	2,198	1,937	1,937
- Percent Change		31.6%		13.5%		15.7%
Construction Cost Index						
Baltimore	Apr. '13	7,003.16	6,595.24	6,616.13	6,391.17	6,391.17
		6.2%		3.5%		2.9%
Real Estate						
National						
Sales (saar)	Mar. '13	4,920,000	4,460,000	4,660,000	4,260,000	4,260,000
- Percent Change		10.3%		9.4%		1.7%
Median Price	Mar. '13	\$184,300	\$164,800	\$176,600	\$166,100	\$166,100
- Percent Change		11.8%		6.3%		-3.9%
Montgomery County						
Sales	Mar. '13	826	730	10,094	9,490	9,490
- Percent Change		13.2%		6.4%		-8.8%
Average Price	Mar. '13	\$484,775	\$436,849	\$465,597	\$451,479	\$451,479
- Percent Change		11.0%		3.1%		2.9%
Median Price	Mar. '13	\$375,000	\$345,000	\$367,125	\$350,000	\$350,000
- Percent Change		8.7%		4.9%		0.0%
Average Days on the Market	Mar. '13	58	90	67	78	78

NOTES:

(nsa): not seasonally adjusted

(QCEW): Quarterly Census of Employment and Wages

(saar): seasonally adjusted at annual rate